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November 1, 2013

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-13-20
Base Level of Net Power Supply Expense – Idaho Power Company's Application and Direct Testimony

Dear Ms. Jewell:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Application.

Also enclosed are nine (9) copies of the Direct Testimonies of Scott Wright and Timothy E. Tatum filed in support of the Application. One copy of each testimony has been designated as the "Reporter's Copy." A disk containing a Word version of both testimonies is enclosed for the Reporter as well.

Very truly yours,

Lisa D. Nordstrom

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LDN:kkt
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO ESTABLISH A NEW BASE LEVEL OF NET POWER SUPPLY EXPENSE	))))))	CASE NO. IPC-E-13-20 APPLICATION

Idaho Power Company ("Idaho Power" or "Company"), in accordance with RP 052, hereby respectfully makes application to the Idaho Public Utilities Commission ("Commission") for an order approving the Company's determination of the new "base level" net power supply expense ("NPSE") to be utilized: 1) to update base rates on June 1, 2014, and 2) as the basis for quantifying the 2014/2015 Power Cost Adjustment ("PCA") rates that would also become effective June 1, 2014. If approved, the Company's proposed change in base level NPSE would have no net impact to the overall revenue collected through customer rates and would also be "revenue neutral" for all classes of Idaho customers.

As described in the direct testimonies of Regulatory Analyst Scott Wright and Senior Manager of Cost of Service Timothy E. Tatum that accompany this Application, the current level of NPSE recovery in Idaho Power's base rates is significantly below the current normalized level of NPSE resulting in an artificially high PCA rate. The Company's proposal in this case is a simple and effective way to restore the PCA mechanism to its intended purpose with no impact to customers' bills. This Application is based on the following:

I. BACKGROUND

1. The PCA is a rate mechanism that quantifies and tracks annual differences between actual NPSE and the normalized or base level of NPSE recovered in the Company's base rates for recovery or credit through an annual rate change each June 1. The PCA mechanism utilizes a 12-month test period of April through March and is composed of a forecast component and a true-up component. The PCA forecast is based on the Company's March Operating Plan and represents the difference between the NPSE forecast from the March Operating Plan and the base level NPSE recovered in the Company's base rates. The PCA true-up includes a backward-looking tracking of differences between the prior year's PCA forecast and actual NPSE incurred by the Company during the prior PCA year. The PCA true-up contains a second component that tracks the collection of the prior year's true-up amount, referred to as the "true-up of the true-up."

2. Base level NPSE is comprised of the following Federal Energy Regulatory Commission ("FERC") Accounts: FERC Account 501, Fuel (coal); FERC Account 536, Water for Power; FERC Account 547, Fuel (gas); FERC Account 555, Purchased Power; FERC Account 565, Transmission of Electricity by Others; FERC Account 442, Hoku Materials, Inc. ("Hoku") Revenues (first block energy only); FERC Account 447, Sales for Resale. The Company's base net power supply expenses are normally established in general rate cases. However, the last time that total net power supply

expenses were reviewed and approved by the Commission was in 2010 (Case No. IPC-E-10-01) in response to an approved settlement stipulation ("Stipulation") in Case No. IPC-E-09-30. The Stipulation included a provision that addressed setting the base level for net power supply expenses prior to implementing the 2010/2011 PCA and effective with the coincident PCA rate change on June 1, 2010. On April 13, 2010, the Commission issued Order No. 31042 establishing the Company's base level NPSE at $220,770,137 on a total system basis.

3. In Idaho Power's last general rate case (Case No. IPC-E-11-08), the Commission issued Order No. 32426 on December 30, 2011, approving a Settlement Stipulation whereby the parties agreed to set base level NPSE at $208,100,936 on a total system basis. This amount held all base level NPSE cost and revenue categories at the same levels established in 2010, with the addition of expected revenue from Hoku and demand response program incentive payment amounts. Finally, as part of the Company's request to include the Langley Gulch power plant in rate base (Case No. IPC-E-12-14), Idaho Power included the associated reduction in net power supply costs in base rates. On June 29, 2012, as part of its decision in that case, the Commission established the now-current base level NPSE of $199,993,778 on a total system basis. This newly established base level NPSE maintained the original 2010 load and fuel cost inputs with the exception of the addition of Langley Gulch as a generation resource.

II. REASONS TO INCREASE BASE NET POWER SUPPLY EXPENSE

4. Most of the individual cost and revenue components of NPSE have changed significantly and permanently resulting in an overall increase in the normalized level of NPSE of approximately $100 million from the 2010 normalized condition to the 2013 normalized condition. Because these increased expenses are not reflected in

base rates, such ongoing and permanent costs are instead currently being recovered through the PCA annually. On page 11 of Order No. 32821 regarding the 2013/2014 PCA, the Commission made the following statement with regard to its concerns about the level of ongoing NPSE recovery in the PCA:

> The danger of using the PCA as a cost recovery mechanism for more than the current annual power cost fluctuation is plainly demonstrated here. The PCA was never intended for long term recovery of costs that continue year to year. It was implemented to properly recover the Company's annual fluctuation in power costs and keep the customers from paying either too little or too much of those costs.

The Company likewise believes that it is more appropriate for these ongoing and permanent power costs to be recovered through base rates than through PCA rates. Therefore, Idaho Power is proposing to remove the recovery of these additional normalized NPSE from the PCA and instead collect these ongoing NPSE through base rates. Idaho Power believes its proposal in this case is a simple and effective way to address the Commission's concerns regarding the PCA and would restore the PCA to its intended purpose with no impact to customers' bills.

5. Idaho Power has computed an updated base level NPSE of $304,684,869 based on a 2013 calendar year ("2013 Base Level NPSE") utilizing methods previously supported by the Commission and has compared the 2013 Base Level NPSE to the currently approved base level NPSE. The development of and the methodology used to determine the 2013 Base Level NPSE are described in detail in the direct testimony of Mr. Wright. Based on the comparison, the Company has determined that the difference between the 2013 Base Level NPSE and the currently approved base levels would be $105.7 million on a system level, demonstrating that the level of NPSE recovery in base rates is significantly below the current normalized level of NPSE. Periodic correction of

the normalized NPSE in base rates also corrects the PCA price signal. The computations of the comparison between NPSE levels are shown in Table 1 – System-Level PCA Accounts of Mr. Tatum's testimony.

6. There are three main factors contributing to the increase in base level NPSE since the 2010 normalized condition. First, market prices are lower, which impact the current expectation of the normalized level of surplus sales. Surplus sales serve to offset power supply expenses, ultimately benefitting customers. Lower market prices impact Idaho Power's ability to economically dispatch its thermal generating units for surplus sales resulting in a reduction to the overall value of surplus sales. The elimination of anticipated Hoku revenues has also increased NPSE. Electric service to Hoku under its Special Contract terminated on April 26, 2012, and neither Hoku nor its United States bankruptcy trustee has given the Company any indication that it intends to take service in the foreseeable future; therefore, no Hoku first block revenue, and subsequently no Hoku load, has been included in the determination of the 2013 Base Level NPSE. Finally, growth in energy purchases under the Public Utility Regulatory Policies Act of 1978 ("PURPA") has contributed significantly to the increase in NPSE in recent years. PURPA generation has more than doubled since 2010 and PURPA-related expenses have increased 113 percent over the three-year period.

7. The Company believes that it is more appropriate for ongoing and permanent power costs to be recovered through base rates than through PCA rates. The collection of significant ongoing and permanent costs through the PCA has compromised the intended symmetrical design of the PCA and has created counterintuitive messaging on customers' bills. While fuel costs and market energy prices contribute to annual fluctuations in NPSE, it is the availability of hydroelectric generation that can have the most significant impact on year-to-year differences in

NPSE. When the Company's base level NPSE is reflective of current normalized NPSE, one would expect that a better than average water-year would result in a negative PCA or a credit and a worse than average water-year would result in a positive PCA or a surcharge. Because the PCA is collecting nearly $100 million in ongoing and permanent NPSE, the annual PCA collection is likely to always be positive or a surcharge to customers, even in a good water-year. This is not representative of the symmetrical mechanism the PCA was intended to be and has been a source of confusion for customers.

III. IMPLEMENTING A REVENUE NEUTRAL RATE

8. To successfully implement the proposed revenue neutral update to base level NPSE, the Company requests that the Commission issue an order by March 31, 2014, approving Idaho Power's determination of the system-level 2013 Base Level NPSE in the amount of $305,684,869. Receiving an order by March 31, 2014, will allow the Company time to compute the 2014/2015 PCA using the newly established 2013 Base Level NPSE. On April 15, 2014, Idaho Power will file its annual request to adjust its PCA rates and will request to simultaneously adjust base rates effective June 1, 2014. The Company's PCA request would include a PCA determination based upon a measurement of the forecast April 2014 through March 2015 NPSE to the newly established 2013 Base Level NPSE. Because the 2013 Base Level NPSE will be higher than the current base level NPSE, the resulting proposed PCA collection amount will be lower by the Idaho jurisdictional share of the incremental base level NPSE requested in this case, adjusted for PCA sharing. The Company will also request an equal and offsetting increase to base rates to become effective on June 1, 2014. In other words, base rates would be increased in a manner that will generate the same level of revenue that would have otherwise been allowed for recovery through the PCA.

9. Based upon the current energy-based allocation used for PCA computational purposes of 95.53 percent, the Idaho jurisdictional share of the $105.7 million difference in system-level base NPSE would be approximately $101.0 million. Because the Company's proposal in this case envisions a rate adjustment that is intended to maintain the same overall level of revenue recovery from base rates and the PCA in aggregate (i.e. "revenue neutral"), it will be necessary to adjust the $101.0 million difference in Idaho jurisdictional base level NPSE to reflect the 95/5 customer to Company sharing provision that exists in the PCA. Under the PCA mechanism, the total allowed recovery under the PCA would be $99.3 million. Therefore, the Company's proposal would result in an increase to base rates of approximately $99.3 million, which includes a $1.7 million reduction to the total difference in Idaho jurisdictional base level NPSE of $101.0 million. This $1.7 million "PCA sharing adjustment" would continue to be reflected in base rates until the Company files its next general rate case or it is otherwise adjusted by Commission order.

10. The Company proposes to use the same energy allocation basis that would exist under the PCA to apportion the approximately $99.3 million base rate increase to each customer class; that is, in proportion to each class's annual energy consumption. By using the same energy allocation basis applied in next year's PCA filing, each customer class will contribute exactly the same amount of revenue to offset NPSE that would exist under the PCA collection. Exhibit No. 2 to Mr. Tatum's testimony demonstrates that the Company's proposal would result in no change to the total amount of revenue by customer class from base rates and the PCA, in aggregate. For illustrative purposes, Exhibit No. 2 has been prepared utilizing the currently approved revenue from base rates and revenue from the 2013/2014 PCA. As can be seen on

Exhibit No. 2, the Company's proposal would result in an increase to base rate revenue of $99.3 million and an equal and offsetting reduction in PCA revenue.

11. In addition to the changes discussed above, the Company is proposing to update the Load Change Adjustment Rate ("LCAR") effective June 1, 2014, to reflect the incremental change in base level NPSE collected through base rates. By applying methodology established by Commission Order No. 32206 in Case No. GNR-E-10-03, the LCAR should be increased from the current level of $17.64 per megawatt-hour ("MWh") to $24.34 per MWh.

IV. <u>WHEELING REVENUE IN THE PCA</u>

12. In the 2013/2014 PCA filing, Case No. IPC-E-13-10, the Commission invited the parties to comment on whether Idaho Power's PCA calculation should only include transmission expenses, as had been the practice since 2009, or should be expanded to include both transmission expenses and transmission revenues. Ultimately, in Order No. 32821, the Commission directed the Company to establish a base level of transmission wheeling revenue in the next rate case so that deviations may be tracked through the PCA.

13. Because the Company's proposal in this case is intended to be revenue neutral, it would not be appropriate to establish a base level amount for a new PCA component as part of this case. The Company believes that it was the Commission's intent that a new base level of transmission wheeling revenue would be established as part of a broader general rate case where the associated transmission costs would also be addressed. However, in Order No. 32821, the Commission indicated that the Company "provided no detail" about the costs that transmission wheeling revenues are intended to recover. With this in mind, the Company believes that it is appropriate as part of this case to provide the Commission with additional detailed information that

demonstrates the significant regulatory mismatch that would occur as a result of *including* transmission wheeling revenues as an offset to transmission wheeling expense in the PCA.

14. Transmission wheeling refers to the transfer of electric power by use of the transmission network of one utility for the benefit of a transmission customer, such as another utility or an independent power generator. Third-party transmission expenses result when Idaho Power purchases transmission service from other transmission owners 1) to move purchased power over their system(s) into Idaho Power's system for service to customers or 2) to move surplus sales off of the Idaho Power system on to the transmission system(s) of other transmission owners. These expenses result from PCA-related transactions and are booked to FERC Account 565. Such expenses have been included in the PCA since 2009 (Case No. IPC-E-09-11). Transmission wheeling revenues result when third-parties buy capacity on Idaho Power's transmission system to facilitate the movement of their power. These third-party transmission customers are charged the Open Access Transmission Tariff ("OATT") rate and the revenues Idaho Power receives are booked to FERC Account 456 and serve to offset the Company's transmission-related costs or revenue requirement. The OATT is designed to recover the cost of owning, operating, and maintaining Idaho Power's transmission facilities and the rate specifically *excludes* expense accounts or plant items FERC has deemed to be generation related and not appropriately recovered in the transmission formula rate, even though those items are properly recorded in the transmission function FERC accounts. The OATT rate explicitly excludes third-party transmission expenses because they are not expenses related to Idaho Power's transmission system; there is no portion of Company-owned

transmission-related costs of which transmission wheeling revenues are intended to recover that are tracked through the PCA.

15. Retail customers receive the benefit of transmission wheeling revenues as a revenue credit in base rates. The test-year level of transmission wheeling revenues is set at the time of a general rate case to offset the test-year amount of transmission investment and expenses in the Company's revenue requirement determination. The test year level of transmission wheeling revenues in base rates is reflective of the transmission plant and expense information current at the time of the test year. Base level transmission wheeling revenues and base level transmission expenses should be based on the same test period. Introducing transmission wheeling revenues as an offset to base transmission expenses outside a general rate case creates an improper matching of transmission wheeling revenues and transmission expenses. Idaho Power believes transmission wheeling revenues do not offset third-party transmission expenses and should not be tracked through the PCA.

V. MODIFIED PROCEDURE

16. Simultaneous with the filing of this Application, Idaho Power has filed the direct testimonies and exhibits of Mr. Scott Wright and Mr. Timothy E. Tatum which support the increased net power supply expense described above. Idaho Power believes that it would be appropriate to process this case by means of modified procedure in accordance with the provisions of RP 201-210. However, if the Commission determines that another procedure for processing this case is preferable, Idaho Power is prepared to immediately present its case in support of the relief requested in this Application.

VI. COMMUNICATIONS

17. Communications and service of pleadings, with reference to this Application should be sent to the following:

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VII. REQUEST FOR RELIEF

18. By utilizing an artificially low normalized NPSE, an artificially high PCA rate must be approved year after year. In the alternative, the Company believes that it is more appropriate for these ongoing and permanent power costs to be recovered through base rates than through PCA rates. Idaho Power respectfully requests that the Commission issue its order approving the Company's determination of the new base level NPSE no later than March 31, 2014, in order to utilize the new base level NPSE 1) to update base rates on June 1, 2014, and 2) as the basis for quantifying the 2014/2015 PCA rates that would also become effective June 1, 2014.

DATED at Boise, Idaho, this 1st day of November 2013.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company